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S E C R E T SECTION 01 OF 04 MUSCAT 000273

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TRANSCOM FOR GENERAL SCHWARTZ FROM AMBASSADOR GRAPPO

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ENRG, OVIP, MU

SUBJECT: SCENESETTER FOR GENERAL SCHWARTZ'S VISIT TO OMAN

Classified By: Ambassador Gary A. Grappo for Reasons 1.4 (b, d)

Summary

¶1. (C) General Schwartz: Embassy Muscat and I warmly welcome you to Oman. As one of our oldest friends in the region -- the Omanis refer to their relationship with us as "strategic" -- the Sultanate remains a strong and trusted U.S. partner. We have requested meetings with Air Vice Marshal Yahya bin Rasheed al-Juma, Commander, Royal Air Force of Oman, Mohammed al-Rasbi, Under Secretary of Defense, and Dr. Khamis bin Mubarak bin Issa al-Alawi, Minister of Transportation and Communications.

¶2. (C) While the U.S. and Oman enjoy close relations, we do not see eye-to-eye on all matters, most notably on Iran. Oman's leadership recognizes and is deeply concerned about Iran's nuclear activities and its destabilizing meddling in the region, but its perspective on the threat posed by Tehran differs from those of the USG and its GCC partners. Omani government officials see direct talks with Tehran without preconditions or sanctions as the best way to mitigate Iranian threats. Iraq, the Israel-Palestinian conflict, Lebanon and the future stability of Yemen are other key regional concerns for Oman.

¶3. (C) U.S. security and military cooperation with Oman is robust. The landmark sale of F-16 aircraft in 2002 helped break Oman's traditional reliance on Great Britain for its defense procurement needs. Under the U.S.-Oman Base Access Agreement, unprecedented in the Gulf when first signed in 1980, the Omanis have provided us with consistent use of their military facilities, including for storage of approximately \$10 billion in U.S. War Reserve Materials. Recent sharp reductions in Foreign Military Financing (FMF) for Oman, however, could adversely impact opportunities for further military engagement.

¶4. (C) Domestically, Oman continues to enjoy internal stability and economic prosperity. National elections in October 2007 for the lower house of Oman's bicameral advisory body (Majlis al-Shura) went smoothly. Oman's economy is enjoying double-digit growth; strong revenue from oil sales has provided funds for ambitious industrialization projects to help diversify the economy. Oil production continues to decline, however, and rising inflation and living costs have generated some public grumbling. The U.S.-Oman Free Trade Agreement (FTA), signed by both the President and the Sultan in 2006, represents a new pillar in our bilateral relationship, but still has not been implemented due to Omani foot-dragging on remaining issues. End Summary.

Domestic Politics

¶ 15. (C) As a result of the strong leadership and pro-Western tilt of Sultan Qaboos, the country's trade and maritime heritage, and generally tolerant religious views, Omanis are known for openness and moderation. The Sultan is considered an enlightened, benevolent ruler who has won the firm allegiance of all Omani tribal groups. His commitment to tolerance and opposition to division among religious or ethnic lines have resulted in the absence of sectarian or factional conflict. In 1996, the Sultan promulgated Oman's "Basic Law" which defines certain rights and privileges for all citizens and enshrines the role of the Majlis Oman, a two-chamber advisory body with severely circumscribed legislative functions.

Iran

¶ 16. (C) Oman maintains close, cordial relations with Iran and is careful not to antagonize the regime in Tehran. Oman probably has the best relationship of any Arab state with Tehran and unlike its GCC counterparts, currently has no problematic bilateral issues with Iran. The Omani government seeks to avoid even the suggestion of friction with Iran, preferring dialogue with its neighbor to the north on maritime security and other shared interests -- including possibly importing Iranian gas to fuel Oman's expanding industrial needs. Apart from a few subjects, however, the Oman-Iran relationship is largely non-substantive and there is little in the way of meaningful cooperation (and only limited trade) between the two countries. Oman's strategic

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relationship instead clearly lies with the United States (and the U.K.), and it regularly shares its insights and observations concerning Iran with us.

Iraq

¶ 17. (S) Although not a major financial donor, Oman supports USG efforts to promote security and political stability in Iraq. The Omani government has forgiven all Iraqi debt and has publicly condemned several high-profile terrorist attacks. Oman is not an origin or transit country for fighters or illegal funds destined for Iraq. The Omani leadership remains concerned with Iraq's future. They remain particularly worried that extremist and sectarian violence in Iraq could spill over into other states in the region. Though encouraged by the recent improvement in security in Iraq brought on by the U.S. troop surge, Omani government officials harbor doubts about the reliability of Iraq's leadership and whether it can effectively control the country. They continue to assert that military force alone will not bring stability to Iraq. Senior Omani military officers and other officials, including the Sultan, support a continued U.S. military presence in Iraq until security is established and Iraqi forces and police are able to preserve security and stability.

Middle East Peace

¶ 18. (C) The Israeli-Palestinian conflict remains a matter of considerable interest, both within the leadership and among the Omani public. As elsewhere in the Arab world, news reports of civilian casualties from Israeli military strikes in Gaza have generated strong public condemnation. The Omani government continues to play its traditional role of quiet support for efforts to peacefully resolve the Israeli-Palestinian conflict based on the President's two-state vision.

Bilateral Security Relations

¶9. (C) Oman is of vital geo-strategic importance to the U.S., many of our allies and the global economy. At the entrance to the Strait of Hormuz, Oman presides over all the shipping lanes in this critical chokepoint. In 1980, Oman decided to enter into a formal security partnership with the U.S. through a Base Access Agreement, which was unprecedented in the Gulf at the time. Since then, Oman has fully supported virtually all access, basing and over-flight requests we have made. Our use of Omani military facilities proved invaluable during both OEF and OIF. U.S. CENTAF maintains War Reserve Materials (WRM) sites at Seeb (Muscat) International Airport, Masirah Island and Thumrait, which house almost USD 10 billion in weapons, equipment, and supplies to support U.S. military operations in the Middle East and South Asia. The closure of the military portion of Seeb airport will be a phased reduction starting in 2010. Oman is constructing a new airbase at al-Musanah, close to the northern port of Sohar, and AFCENT hopes to build a WRM site at this facility.

The Base Access Agreement is up for renewal in 2010; the U.S. will ask to expand its scope to include the ports of Sohar and Duqm and the al-Musanah base.

Counter-Terrorism Efforts

¶10. (S/NF) The Omani security and intelligence services are professional, reasonably well-funded and motivated. Oman is not a regional or offshore financial center and, accordingly, does not have significant money laundering or terrorist financing problems. To date, Oman has never experienced, or been used to stage, a terrorist attack or incident, although members of extremist groups have been arrested. However, with its relatively open and welcoming society and increasing numbers of Western tourists, Oman remains vulnerable to terrorist attacks.

¶11. (U) Oman is an active participant in two port/cargo security programs sponsored by the USG: the Secure Freight Initiative (administered by the Department of Homeland Security), which pre-screens containerized cargo being shipped to the U.S.; and the Department of Energy's MegaPorts Initiative, which is working to install equipment at Omani ports to identify nuclear material.

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Overall Mil-Mil Programs

¶12. (S/NF) Oman has supported virtually all access, basing and over-flight requests we have made. NAVCENT flies P-3 patrols from Masirah Island. NAVCENT also uses the Al Qarin bombing range when U.S. aircraft carriers transit off the coast. In addition, NAVCENT is dramatically increasing the number of port calls to the Sultanate, including liberty visits and logistical re-supply visits. However, Oman does not currently allow nuclear-powered warships to call at its ports.

Foreign Military Sales

¶13. (C) From a high of USD 24.85 million in FY04, the FY08 Foreign Military Financing (FMF) budget request for Oman was first reduced to USD 10.10 million, and then again to USD 4.4 million. The Omanis have not yet been officially notified of this reduction and we anticipate a very negative reaction. Numerous FMF cases are in process, including NVDs, Naval and Coast Guard boats, M-16 rifles, Javelin and TOW-IIB missiles. Declining U.S. FMF poses a challenge for the modernization of Oman's military, as well as for the future of U.S. weapons sales to Oman.

Port Infrastructure Expansion

¶14. (U) Given Oman's history as a seafaring nation, its strategic location adjacent to the sea lanes running between the Red Sea and the Persian Gulf and its sovereignty over the tip of the Musandam Peninsula, it should come as no surprise that port development plays a major role in Oman's drive to diversify its economy. Oman currently has three major ports) one each in the cities of Salalah, Muscat and Sohar; and it is in the early stages of the development of a major dry-dock facility at Duqm.

¶15. (U) Port of Salalah: Port of Salalah is a major regional transshipment hub located on the Indian Ocean rim adjacent to the major east-west shipping lanes. In 2007, Port of Salalah received 2,509 vessel calls; the container terminal handled 2.6 million Twenty-foot Equivalent Units (TEU); and the general cargo terminal handled 2.8 million tons. The port has been operating at or near capacity since 2004. The recent opening of a fifth berth raised berthing space to 1,756 continuous linear meters and throughput capacity from 2.53 million to 3.6 million TEU. Completion of a sixth berth in the second quarter of 2009 will increase berthing space an additional 450 meters (to 2,206 meters) and will raise throughput capacity to 4.5 million TEU. Further expansion plans call for the construction of an additional 1400 meters of quay and three more berths, which will raise capacity to 7.6 million TEU by 2010. Water depth alongside is currently 16.0 meters; but further dredging is scheduled to deepen it to 18.0 meters.

¶16. (U) In 2007, the U.S. Navy began sending USNS ships to Salalah for re-supply every 6 weeks or so. Current plans call for increasing the frequency to one visit per month, but port expansion plans may prevent this. Additionally, Port of Salalah has prevented the U.S. Navy from bringing in oilers during the Khareef monsoon season (summer) due to safety and environmental concerns related to the sea state at that time of year.

¶17. (U) Port Sultan Qaboos (Muscat): Port Sultan Qaboos is a small port that serves as the primary import port in Oman. It features eight useable deep water berths, including four container berths and four general cargo berths. The two deepest berths can accept ships with drafts of up to 12.5 meters. Port Sultan Qaboos is operating at or near capacity, receiving over two hundred ships per month. The U.S. Navy makes regular port visits to Port Sultan Qaboos for liberty calls.

¶18. (U) Sohar Port: Sohar Port, a 50:50 joint venture between the Government of Oman and the Port of Rotterdam, is Oman's newest port, construction of which began in 2002. Located 220 kilometers northwest of Muscat, Sohar Port is also within a 240 kilometer circle of Dubai, Abu Dhabi, Al Ain and Muscat, with excellent road access between the port and each of these cities. Sohar Port's location within easy

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driving distance of these cities but outside the Strait of Hormuz should attract the attention of shippers wishing to save on insurance and fuel costs and shipping time. Unlike Port of Salalah and Port Sultan Qaboos, Sohar Port features a massive industrial complex adjacent to it and dedicates a portion of the berths to exporting the products manufactured there.

¶19. (U) Sohar Port currently features 700 meters of general cargo berths, 520 meters of container berths and about 860 meters of berths allotted to exports of urea, aluminum and steel. Significant additional berthing space is under development. The current plan calls for over 4,500 meters of berth space upon completion. The port currently has a draft of sixteen to sixteen-and-one-half meters. Dredging is scheduled to bring the draft to eighteen meters by the end of

¶2008. A recently-signed expansion plan would add a new breakwater to create a new section of the port that can accommodate vessels of up to 22 meters draft that will transport iron ore pellets. Sohar Port is not on the Base Access Agreement.

¶20. (U) Duqm: Oman's next maritime undertaking is to construct a major port and ship repair facility at the remote town of Duqm. Initial plans call for two breakwaters totaling five kilometers in length, a 700 meter quay for container and general cargo and a 330 meter quay for government vessels. The port will have a draft of 16 meters. Daewoo has signed a contract to design and build a ship repair facility which will rank among the biggest in the Gulf region.

Airports

¶21. (U) Oman is planning for a significant expansion of its commercial airport infrastructure. Highlighting the government's investment program are plans to construct an additional runway and a new terminal complex at Muscat International Airport by 2011. The estimated \$1.2 billion facility will be able to accommodate 12 million passengers per year and provide the space needed for the expansion plans of national carrier Oman Air. The government is also constructing a new terminal and taxiway at Salalah International Airport, to be ready by the end of 2010, as well as new regional airports at Sohar, Duqm, Ras al-Hadd, Adam, Haima, Shaleem and al-Musana,ah, which will have a commercial terminal.

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